Perpetual Private

# Direct Equities Portfolio Performance

## Responsible Investment Portfolio – June 2024 Quarter

### Perpetual Direct Australian Equities Responsible Investment Portfolio

| Returns including dividends* | 3 months (%) | 1 year (%) | 3 years (%[†]) | 5 years (%[†]) |
|---|---|---|---|---|
| **Responsible Investment model portfolio** | **-2.5** | **14.7** | **5.9** | **6.7** |
| S&P/ASX 300 index | -1.2 | 11.9 | 6.1 | 7.2 |
| Excess return (model return above benchmark) | -1.3 | 2.8 | -0.2 | -0.5 |

*Past performance is not indicative of future performance. Client performance may differ due to timing of alignment with the model portfolio, advice fees, administration fees and transactional costs associated with the client's portfolio. Performance is indicative of the total return of the model portfolio's stocks over the period.
[†]Per annum, compounded.

**In the June quarter, Australian shares gave back some of the strong gains from the prior quarter, with the S&P/ASX 300 Index finishing down -1.2%. Over the course of the fiscal year to 30 June, the index finished up 11.9%. This was meaningfully higher than long term annual averages as investor sentiment improved on the back of a perceived peak of the interest rate hiking cycle. That said, recent data released in June suggest that inflation remains 'sticky' which has made investors more cautious by dampening hopes of a near-term rate cut. From a sector perspective, Metals and Mining was particularly weak in the quarter on the back of concerns around Chinese demand, as was Industrials and interest rate sensitive sectors such as A-REIT's. Financials and Healthcare were outperformers.**

Despite the strong year in equities, the June quarter was the weakest over fiscal '24 as measured by the S&P/ASX300 Index. This softening of momentum as we head into the new fiscal year can in part be explained by pockets of 'profit taking' from investors. However, heightened geopolitical risks globally and the deferment of rate cuts from central banks (implying higher rates for longer) have been the key drivers. Domestically, it is worth bearing in mind that we have shifted from a consensus view of the RBA cutting rates towards the back end of calendar 2024, to money markets now pricing in a 50% chance of a rate 'hike' in August when the RBA Board next meet. We remain of the view that the economy is likely to end up in a 'soft landing' type scenario rather than a sharp recession. As such, the uncertainty and risks over the next few months could present investors with compelling long-term opportunities to invest in high quality companies.

Perpetual Private's Responsible Investment Portfolio finished down -2.5% in the quarter, below the broader market which was down -1.2%. A key detractor in the June quarter was Audinate Group (AD8, -24.4%), with the sell-off likely sparked by the resignation of its CFO and IDP Education (IDP, -15.5%) whose outlook has continued to deteriorate amid a range of macro and regulatory headwinds. IGO Ltd (IGO, -20.2%) shares also experienced a weak quarter as the

### Meet your Portfolio Manager

**Daniel Nelson, Portfolio Manager**

Daniel Nelson manages the Responsible Investment portfolio in Perpetual Private. Daniel is also the analyst responsible for research and advice on the Mining, Energy and Materials sector. Daniel joined Perpetual in 2011. He is a CFA charterholder and holds the CFA Institute Certificate in ESG Investing.

CERTIFIED BY RIAA

The Perpetual Direct Australian Equities Responsible Investment Portfolio has been certified by the Responsible Investment Association Australasia according to the operational and disclosure practices required under the Responsible Investment Certification Program.
See www.responsiblereturns.com.au for details[1].



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market reacted to further declines in Lithium pricing under new supply and demand dynamics.

Integral Diagnostics (IDX, +18.7%) was the standout performer for the quarter on the back of the proposed merger with Capitol and a cost cutting program to fight the ongoing cost inflation. Financials such as NAB (+7.2%), Suncorp (+6.3%), AUB (+6.6%) and Macquarie (+4.6%) all contributed well over the quarter though the underweight to CBA was a significant detractor. This was due to optimism around the peaking of the interest rate cycle which has since begun to fade.

## Investment outlook

We expect the near-term movements in the Australian equity market will continue to be influenced by inflation data, as well as the pace of interest rate changes both domestically and globally. Domestically, the market is still grappling with the recent shift from expectations of a rate cut in the coming months to the potential of a rate hike in August. While money markets are now pricing in a 50% chance of this happening, this could likely create volatility and negative near-term sentiment around equities, as investors recalibrate expectations around valuation and the risk of a second rate hike.

From a fundamental perspective, there is clearly a range of flow-on impacts from higher interest rates. Starting with the consumer, mortgage repayments will rise putting further pressure on the cost of living while corporate debt will similarly also increase. Ultimately the RBA will need to strike the right balance of easing inflation by lifting rates, versus not pushing the consumer into too much stress such that the economy results in a hard landing recession. On that note, the June quarter saw quite mixed trading updates from ASX listed companies, which suggests that it very much is a bottom-up stock pickers market.

We expect that markets could continue to lack clear direction for some time, against the backdrop of economic and geopolitical uncertainty. However, increasingly this should evolve into a stock picker's market, and while equity markets may be vulnerable to a near term correction, this would present bottom-up fundamental active managers with opportunities to deploy capital into quality companies at more attractive valuations.

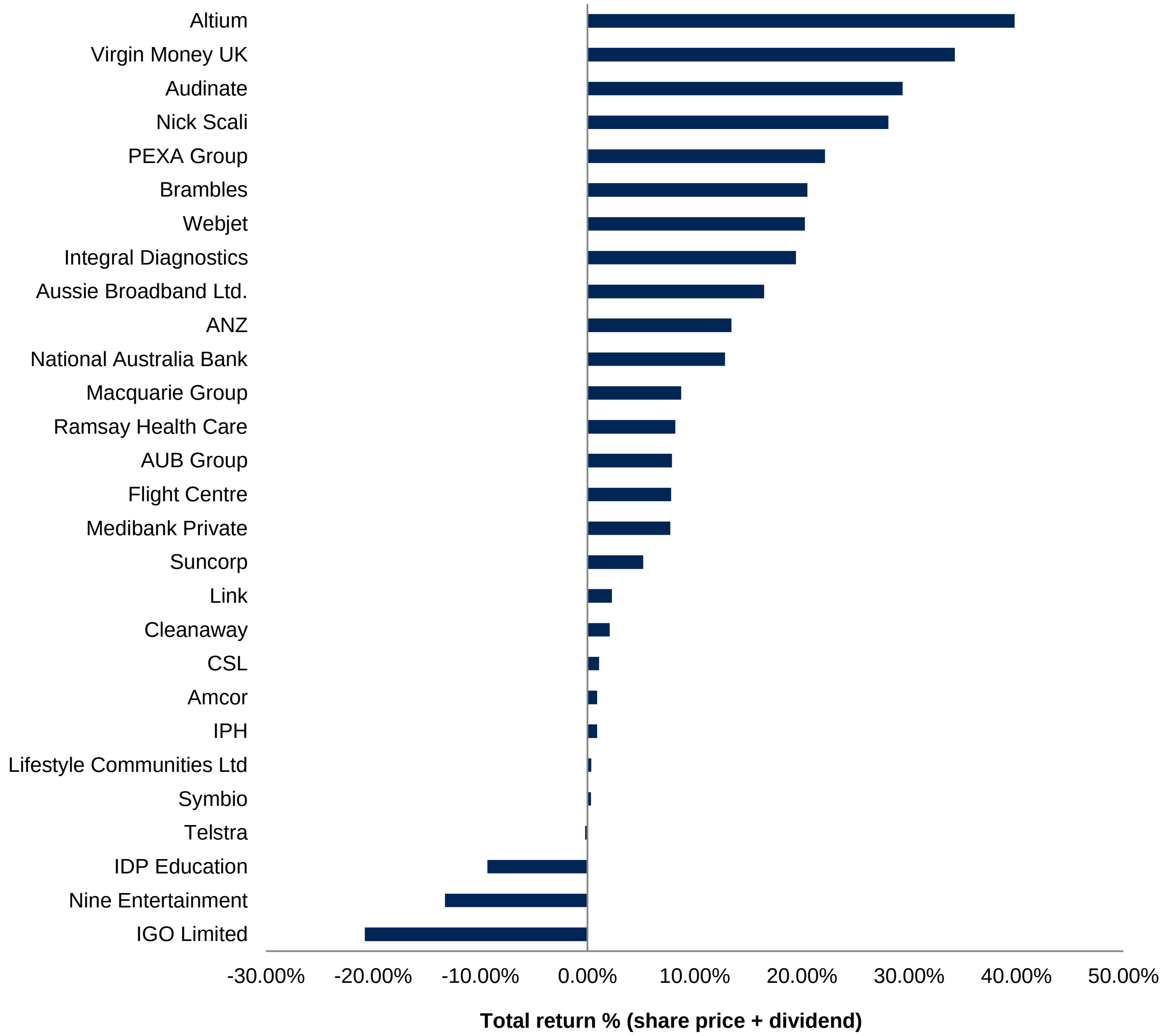
## Portfolio strategy

Following the strong performance across equity markets globally and domestically over the past 12 months, we remain cognisant of the risks ahead in light of the challenges and unknowns mentioned above. There is building geopolitical uncertainty given recent changes in government (i.e. UK) and upcoming elections (US, Australia to name two) which presents the risks of further global instability and trade tariffs. The latter makes 'doing business' for multinational corporates more challenging. A second derivative impact of all this which we are watching very closely is also the risk that potential trade tariffs could have on inflation. Put simply, the shift to deglobalisation, which has become a populist election vote winning strategy creates inefficiencies across economies, limiting competition and driving up input costs. As such, this all could dampen the ability of global central banks efforts in slowing down inflation.

The strong rally across equity markets in fiscal '24 no doubt was in part premised on investor belief of an eventual cut to central bank cash rates as inflation eases. This general market view has been pushed out as inflation has proven rather sticky, particularly domestically where recent inflation data has now led to a growing view that there could be a potential rate hike in August. This is in stark contrast to the consensus view just a few months ago that a rate cut was likely by this time. Putting this all together, we have recently added some more defensive names into our portfolio such as Brambles and quality names which are leveraged to a 'higher for longer' interest rate environment such as Computershare and Suncorp. We have also exited our position in IDP Education given the challenging near-term outlook that the business is facing into from the geopolitical uncertainty globally. That said, we continue to view it as a high-quality business with strong long-term fundamentals.

With the above in mind, we continue to maintain a balanced approach to our Direct Equities portfolio. Whilst there remains a degree of uncertainty around the RBA's August rate decision, we remain of the view that our economy is likely to still be on path for a 'soft' landing scenario. Our investment process has generated consistent historical returns, at, near, or exceeding, their benchmark over the long-term and remains unchanged. We continue to focus on quality companies which we believe can deliver sustainable earnings growth through the business cycle. They have strong balance sheets, sound management teams and are market leaders in their operating segments. From this quality investment universe, we undertake fundamental analysis in order to select our model portfolio stocks. The weights in each stock are primarily driven by a combination of conviction in the investment thesis, balanced with valuation support. While our portfolios are created from the bottom-up company perspective, the macro environment and index composition are considered as part of the process.

## Figure 1: Responsible Investment model portfolio total return for the June 2024 quarter




Source: FactSet, June 2024. Past performance is not indicative of future performance.

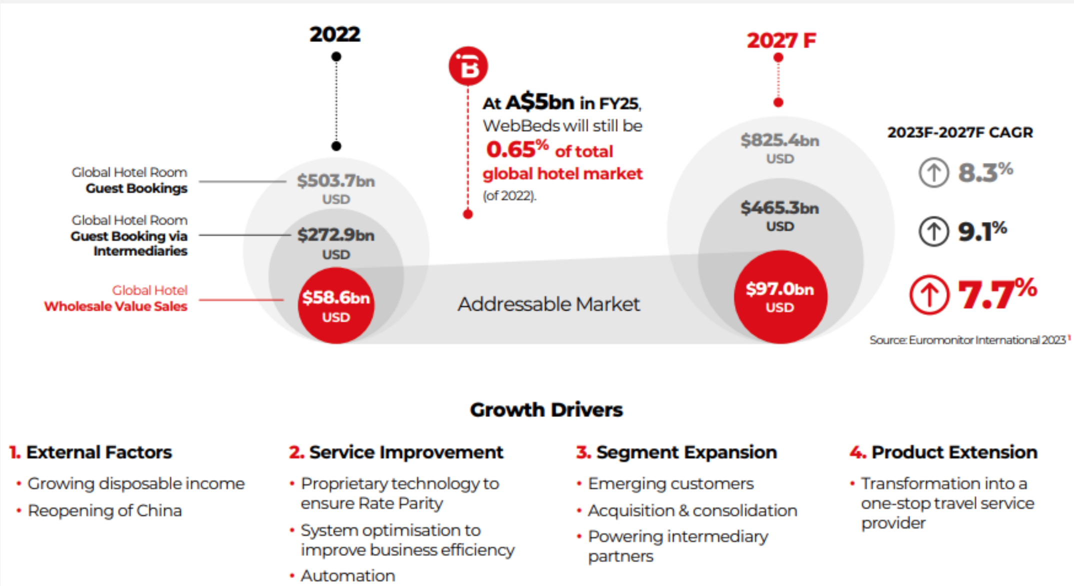
### Webjet : What doesn't kill you makes you stronger

Webjet is a name we have held in the RI portfolio for many years. It is a high conviction position and a key contributor to performance over the last quarter and financial year. To understand why, it is important to understand the journey Webjet has been on since its near-death experience during the pandemic. For almost three years, Webjet's business was curtailed to a fraction of its ordinary operations with borders closed and most flights grounded. Management had difficult choices to make during this time but ultimately used it shrewdly to restructure the business. Ironically, the extent to which Webjet was able to rationalise its cost base and integrate its core systems may never have been possible without the pandemic. As the saying goes, 'what doesn't kill you makes you stronger'.

Nowhere has this been more evident than the WebBeds business. Now the largest division in the group, Webjet's homegrown platform for sourcing hotel rooms has evolved into a scalable global marketplace. We have often felt that WebBeds' long-term potential has been misunderstood by investors. Its reach given its scale is extraordinary, servicing billions of inquiries from travel agents looking to source hotel rooms all over the world. This reach has also grown in the wake of the pandemic, with new market opportunities in North America and Asia opening up in ways that were not possible before. WebBeds now sits with an extensive global opportunity to pursue over the next decade and has created the kind of scalable platform to execute on that opportunity. It has published a $10b total transaction value (TTV) target for FY30 (versus $4b in FY24). The key driver of this result will be improving conversion on its vast daily traffic which is currently measured in basis points.

With WebBeds on such a strong growth trajectory, it is little surprise that Webjet OTA, the original travel business for which the group derives its namesake, has become something of a sidekick. OTA has also benefited from a lessening of competition globally following the pandemic and its opportunity over the next decade is also substantial. Management has recognised that the business may be better off on a standalone basis and has initiated a demerger process for the two divisions. We ultimately see this as the right course of action and believe the businesses will make better strategic and capital allocation decisions as standalone entities. This is a view shared by many in the market and as such, the share price has reacted well to the news. We continue to see Webjet as a high conviction long-term holding and have favourable views on both divisions, whether they are within the same group or separately listed.

**Figure 2: WebBeds strategy and outlook**




Source: Webjet Investor Day presentation, 2024

## Portfolio changes – June Quarter 2024

There were no Portfolio changes this quarter.

### Top 5 high-conviction holdings – as at 15/07/2024

| Model portfolio stock | Relative weight‡ % | Holding weight % | Sector |
|---|---|---|---|
| ANZ Banking Group (ANZ) | +4 | 7.7 | Banks |
| National Australia Bank (NAB) | +4.2 | 8.8 | Banks |
| Virgin Money UK (VUK) | +1.9 | 2.1 | Banks |
| AUB Group Limited (AUB) | +2.6 | 2.8 | Non-bank Financials |
| Macquarie Group (MQG) | +3.5 | 6.6 | Non-bank Financials |

‡Reflects portfolio manager conviction. Represents the percentage held above the stock's weight in the ASX 100 index.

[1] The Responsible Investment Certification Program provides general advice only and does not take into account any person's objectives, financial situation, or needs. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Because of this, you should consider your own objectives, financial situation and needs and also consider the terms of any product disclosure document before making an investment decision. Certifications are current for 24 months and subject to change at any time.



**More information**

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